

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

DODE-00 INR-10 NSAE-00 PA-04 USIA-15 PRS-01 SCEM-02

INT-08 SCI-06 L-03 H-03 FRB-02 XMB-07 OPIC-12 LAB-06

SIL-01 ABF-01 DRC-01 NEA-10 /207 W

----- 020037

R 041853Z JAN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6809

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 00164

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JANUARY 4

BEGIN SUMMARY: EXCHANGE MARKETS WERE AT TIMES CHAOTIC.

STERLING WEAKENED AGAINST THE DOLLAR, HELD ITS OWN

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AGAINST OTHERS. GOLD WAS UP SHARPLY. RESERVES FELL \$170

MILLION IN DECEMBER. MONEY SUPPLY (M3) STILL RISING AT ANNUAL RATE OVER 20 PERCENT IN NOVEMBER. FINANCE HOUSE BASE RATE CHARGED TO INDUSTRIAL AND COMMERCIAL BORROWERS INCREASED TO 15.5 PERCENT. SEPARATE MESSAGE DEALS WITH EFFECTS OF 3-DAY WEEK. END SUMMARY

1. STRENGTHENING OF DOLLAR IN FOREIGN EXCHANGE MARKETS AND ECONOMIC EFFECTS OF PART-TIME BRITAIN (SEE SEPARATE MESSAGE) WERE MAJOR DEVELOPMENTS THIS WEEK. STERLING DECLINED STEADILY AGAINST THE DOLLAR FROM CLOSING RATES OF \$2.3125 ON DEC. 27 TO \$2.2850 ON JAN. 3. AT SAME TIME, STERLING HELD ITS OWN AND AT TIMES STRENGTHENED AGAINST OTHER TRADING PARTNERS. TRADE WEIGHTED DEVALUATION AGAINST SMITHSONIAN RATES, WHICH HAD BEEN IN 18.5 RANGE IN LATE DECEMBER WAS 17.7 PERCENT ON DECEMBER 27, NARROWED TO 17.2 BY JANUARY 2, THEN WIDENED AGAIN TO 17.7 PERCENT ON JANUARY 3. UK OFFICIALS ARE STRESSING TRADE WEIGHTED FIGURE RATHER THAN STERLING/DOLLAR RATE. MARKET HAS NOT DISCERNED ANY SIGNIFICANT BANK OF ENGLAND INTERVENTION THIS WEEK. GOLD PRICE MOVED UP SHARPLY FROM \$111.00 ON DECEMBER 27 TO \$121.00 ON JANUARY 3. FOREIGN EXCHANGE DEALERS GIVE MANY REASONS FOR TURBULENT MARKET SITUATION (WHICH STEADIED ON JANUARY 4), INCLUDING FINANCIAL ASPECTS OF ENERGY CRISIS, FEARS THAT ARABS MAY DEMAND PAYMENTS IN GOLD, THAT MOVEMENT TOWARDS INTERNATIONAL MONETARY REFORM MAY BE POSTPONED, AND ALSO CITE DOMESTIC UK ECONOMIC PROBLEMS.

2. UK OFFICIAL RESERVES FELL \$170 MILLION DURING DECEMBER AFTER ALLOWANCE FOR LONG-TERM DEBT SERVICING PAYMENTS OF \$252 MILLION AND FOREIGN CURRENCY BORROWING BY PUBLIC SECTOR TOTALING \$350 MILLION. AT END OF DECEMBER, OFFICIAL RESERVES STOOD AT \$6,476 MILLION. PAYMENTS OF PRINCIPAL AND INTEREST WERE TO U.S. (\$211 MILLION) AND CANADA. PUBLIC SECTOR FOREIGN CURRENCY BORROWING DURING 1973 TOTALED \$2,448 MILLION. THERE IS SOME FOREIGN EXCHANGE MARKET SPECULATION THAT THE BANK OF ENGLAND MAY HAVE INTERVENED IN MARKET DURING FIRST HALF OF DECEMBER AT A COST TO RESERVES OF UP TO \$200 MILLION, ALTHOUGH PRESS RELEASE CARRIES STANDARD WARNING THAT UNCLASSIFIED

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EXTENT OF INTERVENTION CANNOT BE CALCULATED FROM FIGURES GIVEN IN ANNOUNCEMENT. \$170 MILLION, \$252 MILLION \$350 MILLION, AND \$6,476 MILLION ARE RESPECTIVELY EQUIVALENT (IN ROUND TERMS) TO 59 MILLION POUNDS, 87 MILLION POUNDS, 121 MILLION POUNDS, AND 2,237 MILLION POUNDS IF CONVERTED AT THE PARITY RATE OF ONE POUND EQUALS \$2.89524 OR 73 MILLION POUNDS, 108 MILLION POUNDS, 151 MILLION POUNDS AND 2,787 MILLION POUNDS IF CONVERTED

AT THE CLOSING MARKET RATE ON DECEMBER 31 OF ONE POUND
EQUALS \$2.3235.

3. MONEY SUPPLY STATISTICS FOR OCTOBER 18-NOVEMBER 21
PERIOD SHOWED 0.6 PERCENT DECLINE IN M1, 1.7 PERCENT
INCREASE IN M3. GROWTH OF M3 DISTORTED BY SOME UNWINDING
OF EARLIER ARBITRAGE TRANSACTIONS. DURING THREE MONTHS
TO NOVEMBER 21, M1 SHOWED AN ADJUSTED FALL OF 2.5 PERCENT.
M3 SHOWED AN INCREASE OF 5.75 PERCENT, OR ANNUAL RATE OF
23 PERCENT, PROVIDING BACKGROUND TO NEW MEASURES DESIGNED
TO SLOW GROWTH OF MONEY SUPPLY ANNOUNCED BY CHANCELLOR
IN MINI-BUDGET (LONDON 14970).

4. FINANCE HOUSE BASE RATE HAS BEEN RAISED TO A RECORD
15.5 PERCENT FROM JANUARY 1, UP 1.5 PERCENT. RATE

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SIL-01 ABF-01 DRC-01 NEA-10 /207 W

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R 041853Z JAN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6810

INFO AMEMBASSY BERN

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REFLECTS HIGHER COST OF FUNDS IN INTERBANK MARKET DURING LAST TWO MONTHS. IT IS RATE CHARGED ON MEDIUM AND LONG-TERM LOANS TO INDUSTRIAL AND COMMERCIAL BORROWERS FOR INDUSTRIAL INVESTMENT AND INVENTORIES.

5. ONLY RELIEF IN WEEK CAME WHEN CHANCELLOR BARBER OPENED BOAT SHOW WHICH HAS HUNDREDS OF MODELS OF POWER AND SAILING BOATS. PRESS WONDERED WHERE FUEL WOULD COME FROM UNCLASSIFIED

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TO RUN POWER BOATS, BUT BARBER GAVE IT LIGHT TOUCH, SAYING POUND HAD BEEN FLOATING, AND DEPENDING WHETHER OR NOT BANK OF ENGLAND INTERVENED, FLOATING WAS KNOWN AS CLEAN OR DIRTY. HE SAID IT WAS NONE OF HIS BUSINESS TO ADVISE THOSE WHO GO FLOATING AT WEEKEND WHETHER OR NOT TO KEEP THEIR WEEKENDS CLEAN OR DIRTY, AND PROMISED NOT TO INTRODUCE 3-DAY WEEK FOR SAILING.

6. FORWARD DISCOUNTS ON STERLING/DOLLAR RATE WIDENED IN REACTION TO UNSETTLED MARKET.

	12/27	1/3	CHANGE
1 MONTH	1.50	1.60	UP 0.10
3 MONTHS	3.65	4.40	UP 0.35
	12/27	1/3	CHANGE
6 MONTHS	7.10	7.75	UP 0.65

(ALL FIGURES IN CENTS)

7. LOCAL AUTHORITY RATES FELL SHARPLY.

	12/27	1/3	CHANGE
1 MONTH	16	14-7/8	DOWN 1-1/8
3 MONTHS	16-5/16	15-3/8	DOWN 15/16
6 MONTHS	16-1/4	15-1/2	DOWN 3/4

8. SO DID EURO-DOLLAR RATES, REFLECTING INCREASED STRENGTH OF DOLLAR IN MARKETS.

	12/27	1/3	CHANGE
1 MONTH	11-1/16	9-3/8	DOWN 1-11/16
3 MONTHS	11-1/8	10-3/16	DOWN 15/16
6 MONTHS	10-3/16	10-1/16	DOWN 1/8

9. MINIMUM LENDING RATE REMAINED AT 13 PER-

CENT ON FRIDAY, JANUARY 4.

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Message Attributes

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